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Letter dated 7 November 2018 from the Permanent Representative of Yemen to the United Nations addressed to the President of the Security Council

I have the honour to attach herewith a paper and its attachments, prepared by the Central Bank of Yemen, on the new pre-reimbursement mechanism for opening documentary credits in United States dollars for the import of staple commodities (wheat, rice, sugar, dairy products and cooking oil) (see annex).

I should be grateful if you would have the present letter and its annex circulated to the members of the Security Council and issued as a document of the Council.

(*Signed*) Ahmed Awad **Binmubarak**
Ambassador
Permanent Representative

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Please recycle

Annex to the letter dated 7 November 2018 from the Permanent Representative of Yemen to the United Nations addressed to the President of the Security Council

[Original: Arabic]

Important points regarding the mechanism for opening documentary credits for staple commodities (wheat, rice, sugar, dairy products and food oil)

- Before the Saudi deposit, the Central Bank was lacking in foreign reserves. Several international banks were not allowing the Central Bank to use its accounts. That included a balance of £80 million in the Bank of England, even though the Central Bank had fulfilled all the requirements. That was even after the United States Federal Reserve Bank had unfrozen the accounts of the Central Bank of Yemen, as had the Bank for International Settlements.
- Because of the Saudi deposit, banking services were provided to all the banks, which in turn opened for service to all traders in all parts of Yemen.
- There was a delay in the completion of certain transactions because of technical problems. Transactions now take less than 15 days for the completion of all procedures.
- As of 7 November 2018, there was some $231 million in the Central Bank's correspondent account with the Saudi National Commercial Bank ready to be disbursed pending completion of banking procedures by traders in staple commodities. That included $52 million for the Fahim Company to import wheat. Unfortunately, there were delays because of the decision by the Houthi militias prohibiting the Bank in Sana'a from opening any credits from Aden. Some 75 per cent of those amounts are on behalf of traders from the northern governorates, which are under the control of the Houthis, and less than 25 per cent from the liberated areas.
- The Houthi militias claim that the Central Bank in Aden plans to transfer all liquidity out of Sana'a. In fact, the Yemeni Government is committed to having the Central Bank respond to and cover all liquidity needs throughout the banking sector in all regions of the Republic.
- All the commercial banks and the Central Bank's branch in Sana'a are being run through what the Houthis call their "National Security Agency" by an individual named Adil Ahmad Khalil, who has the final say on banking decisions. The Security Council should consider adding this individual to the sanctions list pursuant to resolution 2140 (2014). He is the reason for delays in much needed staple commodities reaching the country.
- Please find annexed documents proving that the Houthi militias are obstructing the opening of documentary credit accounts with the aim of obstructing the flow of food to various regions of the Republic. They are issuing circulars from what they call the Central Bank, but which is more properly a branch. The internationally recognized Central Bank as has its headquarters in the city of Aden (see enclosures).
- The Central Bank is currently reviewing mechanisms for advance payment at the following percentages:

  (a) 10 per cent when sending credit documents for approval;

(b) 20 per cent when approval is received, the bank procedure is completed and the credit is opened;

(c) 30 per cent when the documents arrive;

(d) 40 per cent when the goods arrive at Yemeni ports.

- It is important that the Security Council act to ensure that the Houthis do not interfere with the functions of the banking sector. The Central Bank of Yemen operates under the supervision of the International Monetary Fund (IMF).

- In order to ensure that staple commodities, including food, can be easily delivered to the inhabitants of the Republic of Yemen, and also to ensure resumed payment of public sector salaries, the Security Council must strive to ensure that the banking and financial sectors are able to operate independently without being affected by the war. All branches of the Central Bank must be able to receive Government revenues and use them pay salaries. If shortfalls occur, they will be covered by the Central Bank in Aden under the direct oversight of IMF.

- The Government is becoming aware of the scale of the disaster resulting from the Houthis turning the Yemeni economy into a war economy that is dependent on smuggling, the arms trade and the sale of petroleum products on the black market. A majority of financial transactions related to payment of import costs are being conducted through informal channels rather than the official banking sector. At least the latter has in place some measures to combat money-laundering and the financing of terrorism. The Government has taken a series of measures to ensure that import operations are once again conducted through official banking channels, including requiring importers of petroleum products and staple commodities to use internationally recognized banking channels to finance international commerce.

- The Government recognizes the importance of maintaining the value of the national currency in a country that imports 90 per cent of its food. The Government has therefore taken a series of measures to prevent the collapse of national currency. The most important are as follows:

(a) It supplies the market with foreign currency by financing a number of staple commodities, either through the Saudi deposit or out of Government reserves.

(b) It regulates supply and demand in the exchange market by requiring traders in petroleum products to provide the proceeds of their sales in national currency to banks that so desire. The Economic Committee, in coordination with the Central Bank, other banks and the major exchange companies, has undertaken to supply foreign currency, instead of each trader entering the market individually.

(c) It channels the import of petroleum products and staple commodities through the banks. That measure will help to restore the banks to carrying out their role in financing imports, and will facilitate oversight and control of banks, helping to put a stop to money-laundering and the financing of terrorism.

(d) It has initiated legal proceedings against certain market speculators.

Measures taken by the Houthi militias

- The Houthi militias have appointed a number of their members to Central Bank branches in the areas under their control, notably Sana'a, and have gotten rid of qualified bank staff. They are practicing a policy of intimidating banking sector employees.

- The Houthi militias have used part of the cash and in-kind humanitarian aid sent by international organizations to finance their war. They have distributed that assistance to their fighters, while giving them the impression that is coming from the militias. In the case of cash assistance, the Houthis have made threats against financial institutions, such as the Amal bank, that have distributed such assistance, and they have appropriated funds intended for refugees in Hajjah.

Enclosure 1

Central bank of Yemen

235 million dollars

Total requests for documentary credits for the purpose of importing staple commodities

Wheat: $153,083,515.87

Sugar: $20,374,512

Rice: $43,265,586.81

Milk: $1,472,973.48

Food oil: $13,456,171.35

Corn: $3,626,612

Enclosure 2

Circular addressed to all banks operating in the Republic

Dear colleagues at_____bank

General/Regional Director_____:

Sirs,

Re: Request for banks to comply with the requirement not to provide cash to cover imports of staple commodities and instead to cover requests for reimbursement 100 per cent by cheque

Pursuant to the Circular No. 4090 of 28 October 2018; in reference to the above subject; and in reference also to the minutes of the Board of the Directors of the Association of Yemeni Banks (meeting No. 14 of 2018 dated 15 July 2018), which include your agreement on a mechanism for covering the import of staple commodities, you are hereby required to comply in full with the following:

1. All banks and all branches operating in the Republic must comply with the requirement not to provide the cash equivalent of those credits in Yemeni rials. Instead, full coverage at 100 per cent is to be provided by cheque only.

2. We would like every bank to provide us with the information requested in the annexed disclosure by tomorrow, Monday, 5 November 2018.

We ask all banks to comply fully with this circular. The Bank will take severe measures and impose sanctions against any bank violating or falling short of full compliance with this circular.

(*Signed*) Yusuf Ali **Zubarah**
Deputy Governor
Banking Oversight Division

Enclosure 3

Circular addressed to all banks operating in the Republic

Dear General/Regional Director,

Re: Advance coverage of staple commodity imports

In reference to the above subject; and in reference also to the minutes of the meeting of the Board of the Directors of the Association of Yemeni Banks (meeting No. 14 of 2018 dated 15 July 2018), which include your agreement on a mechanism for covering the import of staple commodities, you are hereby required to refrain from providing the cash equivalent of those credits in Yemeni rials. Instead, only cheques may be used for that purpose.

Accept, Sirs, ...

(*Signed*) Yusuf Ali **Zubarah**
Deputy
Banking Oversight Division